

Australian Ethical Investment Limited

Appendix 4D (Rule 4.2A.3)

Financial Statements for the half-year ended 31 December 2017

RESULTS FOR ANNOUNCEMENT TO THE MARKET

(All comparisons to half-year ended 31 December 2016)

	\$ '000	Up / Down	% Movement
Revenues from ordinary activities	17,400	up	31%
Net Profit after tax	2,318	up	307%
Net (profit) / loss after tax attributable to The Foundation	(161)		
Net profit attributable to shareholders	2,157	up	282%
Underlying net profit after tax	2,157	down	5%

Dividend information	Amount per share (cents)	Franked amount per share (cents)	Tax rate for franking credit
Final 2017 dividend per share (paid 22 September 2017)	210.0	210.0	30%
Interim 2018 dividend per share (to be paid 16 March 2018)	165.0	165.0	30%

Interim dividend dates

Ex-dividend date	1 March 2018
Record date	2 March 2018
Payment date	16 March 2018

The Company's Dividend Reinvestment (DRP) will not operate in respect to the interim dividend.

	31-Dec-17	31-Dec-16
Net tangible assets per security	\$11.85	\$10.06
Net asset value per security	\$12.71	\$10.87

This information should be read in conjunction with the 2017 Annual Financial report of Australian Ethical Investment Limited and any public announcements made in the period by Australian Ethical Investment Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001 and Listing Rules.

Additional Appendix 4D disclosure requirements can be found in the Directors' Report and the Interim Financial Report for the period ended 31 December 2017.

This report is based on the consolidated 2017 half-year financial statements of Australian Ethical Investment Limited which have been reviewed by KPMG. The Independent Auditor's Review Report by KPMG is included in the Interim Financial Report for the period ended 31 December 2017.

About Australian Ethical

Australian Ethical is Australia's leading ethical wealth manager. Since 1986, Australian Ethical has provided investors with wealth management products that align with their values and deliver strong returns. Investments are guided by the Australian Ethical Charter which both shapes its ethical approach and underpins the Company's culture and vision.

Media enquiries: Suzanne Dwyer, Honner

m 0402 990 029

w australianethical.com.au

Australian Ethical Investment Limited

ABN 47 003 188 930

Interim Report – 31 December 2017

Australian Ethical Investment Limited
Directors' report
31 December 2017

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'group') consisting of Australian Ethical Investment Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2017.

Directors

The following persons were directors of Australian Ethical Investment Limited during or since the end of the financial period:

Stephen Gibbs (Chairperson and Non-Executive Director, appointed 25 July 2012)
Mara Bun (Non-Executive Director, appointed 4 February 2013)
Kate Greenhill (Non-Executive Director, appointed 22 February 2013)
Michael Monaghan (Non-Executive Director, appointed 22 September 2017)
Phillip Vernon (Managing Director and Chief Executive Officer, appointed 27 July 2010)
Julie Orr (Non-Executive Director, appointed 20 February 2018)

Principal activities

The Group's principal activities during the financial year were to act as the responsible entity for a range of public offer ethically managed investment schemes and act as the Trustee of the Australian Ethical Retail Superannuation Fund. Other than what is described in this report, there were no significant changes in the nature of the Company's activities during the year.

Dividends

Dividends paid during the financial half-year were as follows:

	31 December 2017 \$'000	31 December 2016 \$'000
Final dividend for the year ended 30 June 2017 of 210 cents (2016: 180 cents) per ordinary share	<u>2,354</u>	<u>2,009</u>

In addition to the above dividends, since period end the Directors have declared the payment of an interim dividend of 165 cents per fully paid ordinary share (2016: 50 cents), fully franked. The aggregate amount of the declared dividend expected to be paid on 16 March 2018 out of profits for the half year ended 31 December 2017, but not recognised as a liability is \$1,850,000 (2016: \$558,000).

Review of operations

The profit for the group after providing for income tax for the half-year ended 31 December 2017 amounted to \$2,318,000 (31 December 2016: \$569,000).

This net profit is apportioned as follows:

- profit attributable to shareholders \$2.157m (2016: \$0.564m)
- profit attributable to The Foundation \$0.161m (2016: \$0.005m)

Refer to Note 16 for additional details in relation to The Foundation's financial results.

Management Analysis - Financial Performance

	Half-year ended		% Increase / (Decrease)
	31 December 2017 (\$'000)	31 December 2016 (\$'000)	
Net profit after tax (NPAT)	2,318	569	307%
Less: Net profit after tax attributable to The Foundation	161	5	
Net profit after tax attributable to shareholders	2,157	564	282%
Adjustments			
- add back employment restructure expenses	-	250	
- add back further provision for remediation	-	1,045	
- add back unit pricing project costs	-	1,160	
Tax on adjustments	-	(737)	
Underlying profit after tax (UPAT)	2,157	2,282	(5%)
Basic EPS on NPAT (cents for share)	213.03	52.55	
Basic EPS on NPAT attributable to shareholders (cents for share)	198.21	52.07	
Basic EPS on UPAT (cents for share)	198.21	210.75	

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the group during the financial half-year.

Rounding of amounts

The company is of a kind referred to in ASIC Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Phil Vernon
 Managing Director & CEO

22 February 2018
 Sydney



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Australian Ethical Investment Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Australian Ethical Investment Limited for the half-year ended 31 December 2017 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Karen Hopkins
Partner

Sydney
22 February 2018

Australian Ethical Investment Limited
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Australian Ethical Investment Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2017

	Note	31 December 2017 \$'000	31 December 2016 \$'000
Revenue	5	17,400	13,328
Expenses			
Operating expenses			
External services	6	(1,076)	(1,129)
Fund related expenses	7	(2,494)	(1,988)
Employee benefits expenses	8	(7,276)	(4,510)
Marketing		(1,527)	(850)
Occupancy		(387)	(470)
Depreciation and amortisation expense		(174)	(84)
Community grants		(161)	(100)
Other operating expenses	9	(1,078)	(983)
Total operating expenses		<u>(14,173)</u>	<u>(10,114)</u>
Non-operating expenses			
Loss on disposal of assets		-	(205)
Remediation expense		-	(2,205)
Total non-operating expenses		<u>-</u>	<u>(2,410)</u>
Total expenses		<u>(14,173)</u>	<u>(12,524)</u>
Profit before income tax expense		<u>3,227</u>	<u>804</u>
Income tax expense	10	(909)	(235)
Profit after income tax expense for the half-year attributable to the owners of Australian Ethical Investment Limited		<u>2,318</u>	<u>569</u>
Other comprehensive income for the half-year, net of tax		<u>-</u>	<u>-</u>
Total comprehensive income for the half-year attributable to the owners of Australian Ethical Investment Limited #		<u><u>2,318</u></u>	<u><u>569</u></u>
		Cents	Cents
Basic earnings per share		213.03	52.55
Diluted earnings per share		207.13	51.08

Comprehensive income includes the results of The Foundation (refer to Note 16)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Australian Ethical Investment Limited
Statement of financial position
As at 31 December 2017

	31 December	30 June 2017
Note	2017 \$'000	\$'000
Assets		
Current assets		
Cash and cash equivalents	11,761	12,591
Trade and other receivables	1,630	963
Current tax asset	592	303
Other	495	350
	<u>14,478</u>	<u>14,207</u>
Investment property held for sale	11 1,610	1,610
Total current assets	<u>16,088</u>	<u>15,817</u>
Non-current assets		
Investments	12 81	-
Property, plant and equipment	1,968	2,060
Deferred tax asset	957	902
Term deposit	504	504
Total non-current assets	<u>3,510</u>	<u>3,466</u>
Total assets	<u>19,598</u>	<u>19,283</u>
Liabilities		
Current liabilities		
Trade and other payables	2,423	2,557
Employee benefits	1,977	1,727
Provisions	66	207
Total current liabilities	<u>4,466</u>	<u>4,491</u>
Non-current liabilities		
Trade and other payables	493	547
Employee benefits	166	104
Provisions	231	228
Total non-current liabilities	<u>890</u>	<u>879</u>
Total liabilities	<u>5,356</u>	<u>5,370</u>
Net assets	<u>14,242</u>	<u>13,913</u>
Equity		
Issued capital	13 10,145	9,923
Reserves	1,155	1,012
Retained profits	2,942	2,978
Total equity	<u>14,242</u>	<u>13,913</u>

The above statement of financial position should be read in conjunction with the accompanying notes

Australian Ethical Investment Limited
Statement of changes in equity
For the half-year ended 31 December 2017

	Issued capital \$'000	Share-based payments reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2016	8,694	1,928	2,621	13,243
Profit after income tax expense for the half-year	-	-	569	569
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	569	569
<i>Transactions with owners in their capacity as owners:</i>				
Shares issued due to rights vesting during the period	1,229	(1,229)	-	-
Dividends provided for or paid	-	-	(2,009)	(2,009)
Employee share plan - deferred shares	-	326	-	326
Balance at 31 December 2016	<u>9,923</u>	<u>1,025</u>	<u>1,181</u>	<u>12,129</u>

	Issued capital \$'000	Share-based payments reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2017	9,923	1,012	2,978	13,913
Profit after income tax expense for the half-year	-	-	2,318	2,318
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	2,318	2,318
<i>Transactions with owners in their capacity as owners:</i>				
Shares vested under deferred shares plan during the year	222	(222)	-	-
Dividends provided for or paid	-	-	(2,354)	(2,354)
Employee share plan - deferred shares	-	365	-	365
Balance at 31 December 2017	<u>10,145</u>	<u>1,155</u>	<u>2,942</u>	<u>14,242</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes

Australian Ethical Investment Limited
Statement of cash flows
For the half-year ended 31 December 2017

	Note	31 December 2017 \$'000	31 December 2016 \$'000
Cash flows from operating activities			
Receipts from customers		16,617	12,153
Payments to suppliers and employees		(12,503)	(8,297)
Interest received		116	134
Community grants paid		(320)	(280)
GST paid		(1,006)	(682)
Income taxes paid		(1,217)	(1,110)
		<u>1,687</u>	<u>1,918</u>
Net cash from operating activities			
Cash flows from investing activities			
Payments for property, plant and equipment		(82)	(1,586)
Purchase of investments		(81)	-
Purchase of term deposit		-	(504)
		<u>(163)</u>	<u>(2,090)</u>
Net cash used in investing activities			
Cash flows from financing activities			
Dividends paid	14	(2,354)	(2,009)
		<u>(2,354)</u>	<u>(2,009)</u>
Net cash used in financing activities			
Net decrease in cash and cash equivalents		(830)	(2,181)
Cash and cash equivalents at the beginning of the financial half-year		12,591	14,324
		<u>11,761</u>	<u>12,143</u>
Cash and cash equivalents at the end of the financial half-year			

The above statement of cash flows should be read in conjunction with the accompanying notes

Australian Ethical Investment Limited
Notes to the financial statements
31 December 2017

Note 1. General information

The interim financial statements cover the consolidated group of Australian Ethical Investment Limited (referred to as the 'company' or 'parent entity'), and its wholly owned subsidiaries (together referred to as the 'group'). Australian Ethical Investment Limited is a listed company (ASX: AEF) and both the parent and wholly owned entities are incorporated and domiciled in Australia.

The Group is a for-profit entity for the purposes of preparing financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 22 February 2018.

The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

Basis of preparation

These interim general purpose financial statements for the half-year reporting period ended 31 December 2017 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

The consolidated interim financial statements have been prepared on an accruals basis, and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Rounding of amounts

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with the legislative instrument, amounts in the consolidated interim financial statements have been rounded off to the nearest thousand dollars, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the group:

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 "Financial Instruments: Recognition and Measurement". AASB 9 introduces new classification and measurement models for financial assets, financial liabilities, and hedging.

The Group expects the new guidance to have an impact of the classification and measurement of the below financial assets:

- Unlisted unit trusts acquired by the Group's Foundation classified as available for sale will be revalued through Other Comprehensive Income.
- Equity shares acquired by the Group for advocacy purposes classified as available for sale and will be revalued through Other Comprehensive Income.

Note 2. Significant accounting policies (continued)

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition replacing both AASB 118 "Revenue" and AASB 111 "Construction Contracts". The core principle of the standard is that an entity will recognise revenue to depict the transfer or promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard redefines the model for recognising revenue earned from a contract. In addition to giving consideration to credit risk and contracts where performance obligations are satisfied over time, the new standard also requires additional disclosures in both quantitative and qualitative forms. Based on the preliminary analyses performed, the amendments are not expected to have a material impact on the Group.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 "Leases" and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a "right-of-use" asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs.

The standard will affect primarily the accounting for the Group's operating leases. However, the Group has not yet determined to what extent the Group's profits each year will be impacted over the term of the lease and the classification of cash flows.

Some of the commitments may be covered by the exemption for short-term and low-value leases.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances.

The significant judgements made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 June 2017.

Note 4. Operating segments

The Group determines and represents operating segments based on the information that is internally provided to the Managing Director (MD), who is the Group's chief operating decision maker. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The Group comprises one main operating segment being Funds Management.

Note 5. Revenue

	31 December 2017 \$'000	31 December 2016 \$'000
Management and performance fees (net of rebates)	12,849	9,874
Member and withdrawal fees	1,626	1,243
Administration fees	2,707	2,018
Interest income	116	139
Rental income	102	54
	<u>17,400</u>	<u>13,328</u>

Australian Ethical Investment Limited
Notes to the financial statements
31 December 2017

Note 6. External services

	31 December 2017 \$'000	31 December 2016 \$'000
Ethical research	39	37
Audit fees – internal and external	271	270
Consultants	146	220
Legal services	100	66
Other external services	520	536
	<u>1,076</u>	<u>1,129</u>

Note 7. Fund related expenses

	31 December 2017 \$'000	31 December 2016 \$'000
Administration and custody	2,262	1,762
Other fund related expenses	232	226
	<u>2,494</u>	<u>1,988</u>

Note 8. Employee benefits expenses

	31 December 2017 \$'000	31 December 2016 \$'000
Staff remuneration	7,101	4,315
Directors fees	163	168
Other employment costs	12	27
	<u>7,276</u>	<u>4,510</u>

Note 9. Other operating expenses

	31 December 2017 \$'000	31 December 2016 \$'000
Insurance	97	76
IT	731	586
Travel	115	78
Subscriptions and listing	43	31
Other expenses	92	212
	<u>1,078</u>	<u>983</u>

Note 10. Income tax expense

Income tax expense is recognised based on Management's estimate of the weighted average effective annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period.

The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 31 December 2017 was 28% (for the six months ended 31 December 2016: 29%).

Australian Ethical Investment Limited
Notes to the financial statements
31 December 2017

Note 11. Current assets - investment property held for sale

During the year ended 30 June 2017, the Canberra property (Trevor Pearcey House) was reclassified as investment property held for sale as a result of the Group's intention to dispose of the property and the commencement of an active sales campaign. A sale is expected in the next 12 months.

Prior to its reclassification to investment property held for sale, the property was measured at cost less accumulated depreciation and impairment losses. The property and its fixtures and fittings are depreciated over their estimated useful life (5-40 years) on a straight-line basis. Post classification as Held for Sale, the asset is measured at the lower of carrying amount and fair value less costs of disposal. The assets are not depreciated or amortised while they are classified as held for sale.

As at 30 June 2017, a valuation of the property was conducted in accordance with the Group's policy by Jones Lang LaSalle, independent valuers not related to the Group, to determine the fair value. The valuation was determined by reference to recent market transactions on arms' length terms. The property was valued at \$1.65m and management believe this remains an appropriate valuation (less cost of disposal of \$40k) as at 31 December 2017.

	31 December	30 June 2017
	2017	2017
	\$'000	\$'000
Investment property held for sale (less cost of disposal)	<u>1,610</u>	<u>1,610</u>

Note 12. Non-current assets - investments

During the period, The Foundation purchased an investment in the Social Ventures Australia (SVA)'s Diversified Impact Fund (DIF) unit trust. The investments are funded by cash accumulated in The Foundation with the intention of being utilised for social impact investments that are consistent with the Australian Ethical Charter and the Objectives of the Foundation.

The Foundation has committed to an overall investment of \$200,000 in the SVA DIF, of which \$80,000 was paid in the half-year ended 31 December 2017. The remainder of the committed investment will be called in in 2018 and 2019.

	31 December	30 June 2017
	2017	2017
	\$'000	\$'000
Listed shares in Advocacy program	1	-
Investment in Social Impact programs	<u>80</u>	<u>-</u>
	<u>81</u>	<u>-</u>

Reconciliation

Reconciliation of the fair values at the beginning and end of the current and previous financial half-year are set out below:

Opening fair value	-	-
Additions	<u>81</u>	<u>-</u>
Closing fair value	<u>81</u>	<u>-</u>

Refer to note 15 for further information on fair value measurement.

Australian Ethical Investment Limited
Notes to the financial statements
31 December 2017

Note 13. Equity - issued capital

Movements in share capital

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2016	1,115,854		9,923
Shares issued to the Employee Share Trust	8 September 2017	<u>5,076</u>		<u>-</u>
		1,120,930		9,923
Shares vested to employees (5,180 shares)	8 September 2017	<u>-</u>	\$42.85	<u>222</u>
Balance	31 December 2017	<u>1,120,930</u>		<u>10,145</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Note 14. Equity - dividends

Dividends

Dividends paid during the financial half-year were as follows:

	31 December 2017 \$'000	31 December 2016 \$'000
Final dividend for the year ended 30 June 2017 of 210 cents (2016: 180 cents) per ordinary share	<u>2,354</u>	<u>2,009</u>

In addition to the above dividends, since period end the Directors have declared the payment of an interim dividend of 165 cents per fully paid ordinary share (2016: 50 cents), fully franked. The aggregate amount of the declared dividend expected to be paid on 16 March 2018 out of profits for the half year ended 31 December 2017, but not recognised as a liability is \$1,850,000 (2016: \$558,000).

Franking credits

	31 December 2017 \$'000	30 June 2017 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	<u>4,393</u>	<u>4,185</u>

The above amounts represent the balance of the franking account as at the end of the financial half-year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date

Note 15. Fair value measurement

Fair value hierarchy

This note provides an update on the judgements and estimates made by the Group in determining the fair values of the financial instruments since the last annual financial report.

The following tables detail the group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Fair value measurements derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e.as prices) or indirectly (i.e. derived from prices). The fair value of financial assets that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, referenced to the current fair value of a substantially similar other instrument or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Level 3: Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). This category includes instruments valued using quoted prices in active markets for similar.

- 31 December 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Financial assets measured at fair value</i>				
Cash and cash equivalents	11,761	-	-	11,761
Trade and other receivables	1,630	-	-	1,630
Term deposit	504	-	-	504
Investments	1	80	-	81
Total assets	<u>13,896</u>	<u>80</u>	<u>-</u>	<u>13,976</u>
- 30 June 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Financial assets measured at fair value</i>				
Cash and cash equivalents	12,591	-	-	12,591
Trade and other receivables	963	-	-	963
Term deposit	504	-	-	504
Total assets	<u>14,058</u>	<u>-</u>	<u>-</u>	<u>14,058</u>

Assets and liabilities held for sale are measured at fair value on a recurring basis.

There were no transfers between levels during the financial half-year.

Note 16. The Foundation results

All income received and net assets including cash of The Foundation are restricted to the Foundation's activities and are not available for distribution to AEI's shareholders or to settle liabilities of other Group entities.

As at and for the period ended 31 December 2017, the impact of The Foundation before intercompany eliminations is noted below:

Australian Ethical Investment Limited
Notes to the financial statements
31 December 2017

Note 16. The Foundation results (continued)

	31 December 2017 \$'000	31 December 2016 \$'000
Statement of comprehensive income		
Revenue from parent entity	326	102
Interest income	2	3
Community grants expense	(161)	(100)
Audit fees	(6)	-
	<u>161</u>	<u>5</u>
Profit for the period	<u>161</u>	<u>5</u>
	31 December 2017	30 June 2017
Statement of financial position		
<i>Assets</i>		
Cash and cash equivalents	353	372
Receivables from parent entity	326	379
Investments	80	-
	<u>(167)</u>	<u>(320)</u>
<i>Liabilities</i>		
Payables	<u>(167)</u>	<u>(320)</u>
Net assets	<u>592</u>	<u>431</u>
	31 December 2017	30 June 2017
<i>Equity</i>		
Current year surplus	161	4
Retained earnings	<u>431</u>	<u>427</u>
Total equity	<u>592</u>	<u>431</u>

Note 17. Commitments and contingencies

The nature of the Group's commitments is as disclosed in the Group's consolidated financial statements as at and for the period ended 30 June 2017.

Lease commitments includes an operating lease in relation to the Sydney office premises. The 7-year lease does not include an option to purchase the premises at the expiry of the lease period. Lease incentives were received and are recognised as Trade and other payables. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Group has provided a bank guarantee of \$504,000 (2016: \$504,000) over the rental of building premises at the expiry of the lease period.

Other financial commitments include commitments as part of the social impact program within the Foundation. Refer to Note 12 for additional information.

Australian Ethical Investment Limited
Notes to the financial statements
31 December 2017

Note 17. Commitments and contingencies (continued)

	31 December	30 June 2017
	2017	\$'000
	\$'000	\$'000
<i>Lease & other financial commitments</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	573	503
One to five years	2,562	2,175
More than five years	-	588
	<u>3,135</u>	<u>3,266</u>
<i>Liabilities recognised in respect of non-cancellable operating leases</i>		
Lease incentives:		
Current	109	109
Non-current	493	547
	<u>602</u>	<u>656</u>

Note 18. Related party transactions

Parent entity

Australian Ethical Investment Limited is the parent entity.

Other related parties

Australian Ethical Superannuation Pty Limited (AES) acts as trustee for Australian Ethical Retail Superannuation Fund (AERSF).

Australian Ethical Investment Limited (AEI) acts as the responsible entity for the following Australian Ethical Trusts (AET's):

- Australian Ethical Australian Shares Fund
- Australian Ethical Diversified Shares Fund
- Australian Ethical Income Fund (formerly Australian Ethical Cash Fund)
- Australian Ethical Fixed Interest Fund
- Australian Ethical International Shares Fund
- Australian Ethical Advocacy Fund
- Australian Ethical Property Trust (deregistered 11 September 2017)
- Australian Ethical Emerging Companies Fund
- Australian Ethical Balanced Fund

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

On 9 February 2018, the combined Chief Financial Officer/Chief Operations Officer role was replaced by two separate roles: Chief Operating Officer and Chief Financial Officer.

Note 19. Share-based payments

The following share-based payment arrangements existed at 31 December 2017.

Deferred shares

Under the long term incentive scheme introduced in 2014, participants are granted shares subject to meeting specified performance criteria over the performance period. The number of shares that the participant receives is determined at the time of grant with the shares being held in trust. These shares are issued for nil consideration with the shares having voting rights and employees receive dividends.

Included under employee benefits expense in the consolidated statement of comprehensive income is \$329,000 (2016: \$221,000) relating to the deferred shares granted.

Deferred shares are held in an Employee Share Trust until vesting conditions are met.

Following shareholder votes on remuneration related resolutions at the 2017 AGM, the company is currently reviewing the employee remuneration structure.

Note 20. Events after the reporting period

Apart from the dividend declared as disclosed in note 14, no other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

Australian Ethical Investment Limited
Directors' declaration
31 December 2017

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the group's financial position as at 31 December 2017 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Phil Vernon
Managing Director & CEO

22 February 2018
Sydney



Independent Auditor's Review Report

To the shareholders of Australian Ethical Investment Limited

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying **Interim Financial Report** of Australian Ethical Investment Limited (the "Group").

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Australian Ethical Investment Limited is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 December 2017 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises:

- Consolidated statement of financial position as at 31 December 2017
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the Half-year ended on that date
- Notes 1 to 20 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The **Group** comprises Australian Ethical Investment Limited (the Company) and the entities it controlled at the Half year's end or from time to time during the Half-year.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- for such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.



Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Australian Ethical Investment Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Half-year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG

Karen Hopkins
Partner

Sydney
22 February 2018